

## **Commission Meeting Minutes January 13, 2016**

Chairman Brown called the meeting to order at 11:05 AM. He then acknowledged the other Commissioners present: Commissioners Kate Fitzpatrick, Elizabeth Fontaine, John Langan, James Machado, and Gerald McDonough. Absent from the meeting was Commissioner Robert McCarthy.

Chairman Brown announced that the Commission meeting is being tape recorded which will be noted in the minutes.

PERAC Staff Present: Executive Director Joseph Connarton, Deputy Executive Director Joseph Martin, General Counsel/Deputy Director John Parsons, Deputy General Counsel/Managing Attorney Judith Corrigan, Actuary James Lamenza, Director of Strategic Planning Mike DeVito, Compliance Officer Thomas O'Donnell, Compliance Counsel Derek Moitoso, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Director of Administrative Services Caroline Carcia, Chief Auditor Harry Chadwick, Compliance Analyst Cheryl Johnson, Senior Actuarial Associate John Boorack, Actuarial Analyst Tim Larkin, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the guests in attendance: Sean Neilon representing Mass Teachers' Retirement Board, Nick Favorito representing the Mass State Retirement Board, Kimberly Fletcher representing the Newton Retirement Board, Katie McCue representing MMA, Frank Valeri representing Mass Retirees, Paul Shanley representing Amity Insurance, Mark Bergin representing NuParadigm Investment Partners, and from Collaborative Consultants were Rob Roberts, Arun Khond, Laura Harriman, and Zach Slayton.

There was a request to modify the minutes from December 2, 2015 on page 963 to read that Commissioner Fitzpatrick made a motion to adopt the Election and Disability Regulations as amended. Commissioner McDonough seconded it and the amended Regulations were unanimously adopted.

Commissioner Fitzpatrick made a motion to adopt the amended Commission meeting minutes from December 2, 2015. Commissioner McDonough seconded the motion and it was unanimously adopted.

### **Actuarial Update**

Mr. Lamenza discussed the updated Investment Return Assumption chart. He believes that NEPC's Study will report that the 30 year gross expected return will most likely be 7.8% which should be finalized within a few days. Treasurer Goldberg recommended that the Investment Return Assumption for the Commonwealth Valuation be decreased to 7.5% at the Consensus Revenue Hearing and she may want to decrease it further in the future. He discussed the liability increase with the Treasurer, who recognized there would be an increase in the liability but indicated that the potential cost in a down grade from the rating agencies would be a greater cost

to the Commonwealth. Based on that discussion we are going to use a 7.5% assumption in the 1/1/16 Valuation.

Mr. Lamenzo stated that the Legislature required PERAC to make a report by January 15 for the 2015 Early Retirement (ERI) incentive program. He reported that there were almost 2,500 people that retired under the ERI. The actuarial liability for these retirees increased approximately \$230 million. When this amount is amortized over 15 years, the annual cost is \$25.5 million. This is a bit lower than the amount A&F estimated of \$29.1 million. He then stated that he would rather see the cost spread over 10 years rather than 15 years.

Discussion ensued regarding the ERI including the payout for vacation and sick leave being spread out over 3 fiscal years, the 2002 & 2003 ERI was amortized over 15 years then rolled into the regular schedule, and a suggestion to make a recommendation to the Legislature that the annual cost be spread over 10 years when this report is filed.

Mr. Lamenzo stated that he does not know what the health care and buyouts would cost. He stated that the report is not yet complete but the final report will include language about spreading the annual cost over 10 years when he sends the report to the Legislature.

#### **Legal Update**

Ms. Corrigan reported on *Martin Fair v. Middlesex County Retirement Board*, CR-15-294 and *Greco v. Bristol County Retirement Board and PERAC*, CR-14-625 cases.

#### **Legislative Update**

Mr. DeVito reported that the Legislature is back to formal sessions, in fact the House started meeting today. He continued that the Governor vetoed FY'16 Budget Outside Section 55 which was sustained by the Legislature. He reported that a follow up letter will be sent to Chairman Brian Dempsey of the House Ways and Means Committee regarding PERAC's proposed Concurrent Beneficiaries legislation. Mr. DeVito then reported that Mr. Connarton would be reporting on H. 17, PERAC's bill which would authorize the Commission to hold hearings in Section 15(7) matters. He stated that the Joint Committee on Public Service will hold its next hearing on January 26, 2016.

#### **Audit Update**

Mr. Chadwick reported that the Audit staff is currently auditing the Essex Regional, and Milton Retirement Systems as well as PRIM. He then stated that the Hampshire County (no findings), and Malden Retirement System's audit reports have been posted on the PERAC Web Page and explained the respective findings. Mr. Chadwick then reviewed the most recent six-month follow up audit report for North Attleboro Retirement System.

## **Compliance Update**

Ms. Johnson reported that there have been 32 course offerings in 2015 with over 1350 attendees. She stated that there have been 72 investment procurements that have been acknowledged by PERAC in 2015. She then stated that the Annual Vendor Disclosures have been distributed to over 1250 vendors and have received about 11% already which are due by March 1, 2016.

Mr. Moitoso reported the educational records for all board members have been distributed so the members could review PERAC's list. He then stated that the SFIs will be sent to all board members very soon and are due in May 2016.

## **Executive Director's Report**

Mr. Connarton stated that this is the last meeting for Commissioner Gerald McDonough and that he will be retiring at the end of the month. He thanked the Commissioner for his participation and knowledge that he has provided to PERAC and will be greatly missed. Mr. Connarton then wished him well in his future endeavors.

Mr. Connarton reported on staff activities since the last Commission meeting. He specifically reported that Mr. Parsons and he met with First Deputy Attorney General Chris Barry-Smith and Government Bureau Chief Robert Toone. He believes the meeting was very productive and was a goal of the Strategic Plan.

Mr. Connarton updated the Commission about the Public Service Hearing held in response to PERAC's legislation, H 17 authorizing the Commission to hold hearings in Section 15(7) matters. Last year PFFM strongly opposed this bill which was sent to study, this year a couple other unions spoke against this bill as they do not want PERAC to have "enforcement powers to pursue disability retirees and their earnings". This is not the intention of the bill. Mr. DeVito and he have spoken with Chairman Murphy and staff; it was made very clear that this bill will not pass as written and suggested that the local retirement boards conduct these hearings and notify PERAC of the results of that hearing. This language is the result of a few very egregious cases for example Michael McLaughlin, former Executive Director of the Chelsea Housing Authority; the Retirement Board has not yet held this hearing. He stated that PERAC could draft some compromising language for this bill to present back to the Commission.

Mr. Connarton asked that all Commissioners please acknowledge receipt of the Conflict of Interest Law and the Open Meeting Law and provide the receipts to Ms. Boisvert.

Mr. Connarton presented the 2014 Schedule 7 Investment Fee Report. He indicated that the Report has been released. He continued that PERAC has not audited this information and makes no representations.

Mr. Martin gave a brief history of the idea and the purpose of creating this report. He continued that this Report deals with management fees, going forward we hope to add additional information.

The Commission complimented the staff for its presentation of this report and there was a suggestion to provide a percentage of the fees in relation to market value. Mr. Martin explained his thoughts for reports in the future and the ability to be utilized for many different uses and will be able to sort under different criteria.

Mr. Connarton discussed the status of the IT project and our current ability to retrieve data and perform analytic studies. In June of last year the Commission had approved a Capital Budget of \$3.295 million to implement a new modern platform, Phases I and II are complete. Phase III through VI will be complete by October 2016 which will provide PERAC's Portal with a Web Application to support the Retirement Boards, Retirees, Investment Vendors, and the Medical Vendors. Mr. Dan Boyle, Director of Information Technology, and Collaborative Consultants distributed a presentation.

Mr. Rob Roberts, Collaborative Consultants, reviewed the IT project background, highlights, new design, and the roadmap for the future. Staff, retirement boards, and vendors will need to be trained on the system.

Collaborative Consultants has worked with a few retirement boards and vendors to review the proposed project. They discovered a few things that needed to be changed in the interaction, which was changed right away. Mr. Roberts stated that the new system will have the ability to be corrected or updated almost immediately. He indicated that this sort of interaction will need additional planning and is unable to report a time line for this process at this time.

Mr. Connarton requested a vote for the remaining balance of \$2.970 million for Phases III through VI.

Commissioner McDonough made a motion to expend the balance of the Capital Budget of \$2.970 million. Commissioner Machado seconded the motion and it was unanimously approved.

Mr. Connarton thanked the Commission for its approval.

### **Other Business**

Chairman Brown stated that Commissioner Gerald McDonough has been a great role model with a quick wit, commitment, and intellectual caliber regarding so many areas including fiduciary duty, to him and the full Commission. Chairman Brown thanked Commissioner McDonough and presented him with a parting gift on behalf of the Commission.

Commissioner McDonough gave a brief history of his professional career. He stated that in the past he was a critic of PERAC on occasion but having participated on this Commission he has realized what a pleasure it is to work with PERAC and admires the work that occurs here. He believes that what PERAC does should be a model for other states. He will be retiring from state service but will be opening his own law firm. Commissioner McDonough thanked the Commission for his retirement gift and invited those in attendance to his retirement gathering.

Chairman Brown stated that the next Commission meeting is scheduled to be held on Wednesday, February 17, 2016 at 1:30 PM.

Commissioner McDonough made a motion to adjourn. Commissioner Langan seconded the motion. The Commission meeting adjourned at 12:45 PM.

**Commission Meeting Documents**

Commission Agenda for the meeting of January 13, 2016  
Commission Minutes for December 2, 2015

**Legal Update**

Memo and decisions for:

*Martin Fair v. Middlesex County Retirement Board*, CR-15-294  
*Greco v. Bristol County Retirement Board and PERAC*, CR-14-625

**Actuarial Update**

Investment Return Assumption pie chart

**Legislative Update**

Monthly Legislative Agenda and bullet points outlining legislation

**Audit Update**

Recent PERAC Audits

**Executive Director's Report**

Updated Staff Activities Memo  
Conflict of Interest Law and acknowledgement form  
Open Meeting Law Guide and acknowledgement form  
2014 Schedule 7 Investment Fees Report

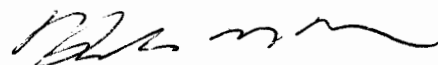
**Other Documents**

NCPERS 2015 Public Retirement Systems Study

**Other Documents Distributed at Meeting**

Early Retirement Incentive Program Cost Analysis  
Suggested Text for H. 17  
Education Course Offerings  
Collaborative Consulting Presentation

Approved:



Philip Y. Brown, Chairman  
Public Employee Retirement  
Administration Commission